

February 1, 2002

To: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

**ACTION PLAN AND ESTIMATED TIMETABLES FOR CONVERSION TO ALTERNATIVE HEALTH GOVERNANCE MODELS (RELATES TO ITEM S-1 OF 2/15/02 AGENDA)**

On September 4, 2001, on motion of Supervisor Yaroslavsky, your Board instructed my office to prepare, for purposes of illustration, an action plan and timetable showing the major milestones likely to be involved in converting to each of five alternative health governance models discussed during that day's Board meeting. In addition, we were instructed to provide estimates of hours and dollars required for each milestone.

Attached is our report (Attachment I), which includes input from County Counsel, illustrating the actions required to implement three of the five alternative health governance models (the Health Authority, Health District and the Private Non-Profit Public Benefit Corporation). This outline describes the necessary actions, including required legislation or County ordinance changes, formation and creation procedures, and transition steps.

The transition of employees and administrative functions from the County to a new governance structure could take several years to accomplish. For example, in Alameda County, the shift of personnel and contracting functions took two years for a system that is comprised of one acute care facility and 3,000 employees. By comparison, Los Angeles County has six hospitals and approximately 24,000 employees. The time frames shown reflect ranges as actual timing would depend on the number and nature of obstacles which might occur. For example, union or community complaints might extend the time needed to complete certain actions.

Conversion to either of the two remaining models (Health Commission and Current Governance Structure with Enhanced Administrative Flexibility) would require minimal action by your Board. The Health Commission model only requires your Board to adopt an ordinance establishing the Commission and its membership, function and duties. The ordinance would be effective and operative 30 days after its second reading. Estimated costs for conversion to this model would be minimal and include a per diem allowance for each Commission member as well as administrative costs for support staff services.

As stated in our December 13, 2001 memorandum (Attachment II), which identifies four proposals that would allow the Department of Health Services (DHS) more administrative flexibility while maintaining its current governance structure, only one proposal requires separate action by your Board at this time. In order to increase delegated authority to my office to approve budget adjustments within DHS budget units up to \$1.0 million per quarter, we will be submitting a Board letter for your Board's approval within the next month. We are continuing to work with DHS, as shown in their recent Strategic Plan, to identify further reforms which would increase the Department's administrative flexibility.

Based on the lack of detailed information on conversion costs incurred by other entities, we have been unable to determine cost estimates for conversion to each governance model. The only substantive information we have been able to gather is from Alameda County which has a Health Authority. Alameda acknowledged legal costs of \$0.5 million related to the conversion, as well as unquantified overtime costs.

Given the size and complexity of this County's health system, comparisons with other jurisdictions are difficult to make. If your Board chooses to pursue conversion to another health governance model, we will work with DHS to provide you with a detailed cost analysis of that model.

If you have any questions or need additional information, please call me, or your staff may contact Gregory Polk of my staff at (213) 974-1791.

DEJ:DL  
SRK:GP:vyg

#### Attachments

c:     Executive Officer, Board of Supervisors  
        County Counsel  
        Director of Health Services

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## GOVERNANCE ACTION PLAN AND TIMETABLES

Conversion to a Health Authority, Health District or Private Non-Profit Benefit Corporation could take between three to five years in order to implement all the required steps. Each of these models involves a three phased process as described below.

### **Health Authority**

A health authority is a public entity, distinct from the County, but is treated similar to a county-operated hospital. The following are the key steps needed to complete the conversion. The time frames shown are cumulative, therefore, the whole process could take between three to five years.

#### **Phase I - Enactment of Legislation**

##### ***Estimated Time: 6 months to 2 years***

##### ***Action Items:***

- Initiate County internal discussions on content of legislation.
- Discuss content of legislation with interested stakeholders (e.g., unions, community advocates and other health care providers).
- Obtain Board approval to sponsor legislative proposal.
- Identify legislator to carry legislation.
- Draft legislation (preferably with agreement of stakeholders).
- Monitor introduction, possible amendments, and passage of legislation.

#### **Phase II - Formation of Authority**

##### ***Estimated Time: One month to one year***

- Appoint members as shown in legislation.
- Establish Health Authority infrastructure including the following:\*

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\*Each of these steps involves extensive planning and implementation efforts.

1. Implementation of fiscal, personnel and data management systems.
2. Decision whether to hire new personnel or transition County personnel.
3. Creation of Authority's management and operational structure.

### Phase III - Transition Steps

#### **Estimated Time: 3 to 5 years**

- Establish contract between County and Authority to provide:
  1. Indigent care (including level of service and corresponding funding).
  2. Distribution of financial liability (past and future).
  3. Access to inter-governmental transfers funding (if necessary).
- Initiate transfer of real or personal property either through lease or sale from County to Authority.
- Establish Beilenson notice and hearing (notice must be posted at least 14 days prior to hearing).
- Obtain required licensure and certification of facilities by State and Federal government.
- Authority begins start-up process by:
  1. Contracting for support services provided by County.
  2. Contracting with private vendors for supplies and services.
  3. Implementing management and operational structure, including any necessary hiring.
- Authority and County initiate renegotiation, assignment or any other disposition of County's contracts with:
  1. Affiliation agreements with medical schools and transition of residency programs.
  2. Public private partnerships, managed care and other third party payors.
  3. Agencies providing grants.
  4. Various DHS services and supplies contractors.

## **HEALTH DISTRICT**

California law allows for the establishment of health care districts which are distinct public entities charged with providing health care services directly or through contracting. The following are the key steps needed to complete the conversion. The time frames shown are cumulative, therefore, the whole process could take between three to five years.



### Phase I - Formation of the Health District

#### **Estimated Time: 6 months to 1 year**

- Board files a notice of intention to circulate a petition with Local Agency Formation Commission (LAFCO) indicating the reason for the proposed district.
- Proceedings for a district's formation may be initiated by petition signed by registered voters or by a resolution of application adopted by the Board of Supervisors.
- Initiate a petition to be circulated to obtain the signatures of 12 percent of the registered voters within the boundaries of the proposed district. The petition or adoption of the resolution of application is filed with LAFCO which may wholly, partially, or conditionally, with or without amendment, approve or disapprove the proposal after a public hearing on the matter.
- LAFCO must notify and give all state agencies that have oversight or regulatory responsibility over the proposed district 60 days to comment prior to this hearing. Specifically included in these agencies are the State Department of Health Services, the California Medical Assistance Commission, the Office of Statewide Health Planning and Development, and any impacted health care planning agency.
- LAFCO conducts protest hearing if proposed formation is approved.
- LAFCO accepts oral or written protests by any interested party. A written protest of more than fifty percent of the voters in the district will terminate the proceedings.
- LAFCO adopts a resolution ordering formation of the District, subject to confirmation by the voters at the next available election, if there are not sufficient written protests to terminate proceedings.
- A majority vote is required to establish the district.
- LAFCO can require that a tax proposal be placed on the same ballot as the question of whether the district should be formed. A two-thirds vote is required.

### Phase II - Creation of District

#### **Estimated Time: One month to two years**

District would be governed by a five-member Board of Directors. The initial directors are appointed by the County Board of Supervisors for staggered terms. All subsequent directors must be elected by the voters in the district.

- Establish District's infrastructure including the following:\*
- 1. Implementation of fiscal, personnel and data management systems.
- 2. Decision whether to hire new personnel or transition County personnel.
- 3. Creation of Authority's management and operational structure.

Phase III - Transition Steps

**Estimated Time: 3 to 5 years**

- Establish contract between County and District to provide:
  1. Indigent care (including level of service and corresponding funding).
  2. Distribution of financial liability (past and future).
  3. Access to inter-governmental transfers funding (if necessary).
- Initiate transfer of real or personal property either through lease or sale from County to District.
- Establish Beilenson notice and hearing (notice posted at least 14 days prior to hearing).
- Obtain required licensure and certification of facilities by State and Federal government.
- District begins start-up process by:
  1. Contracting for support services provided by County.
  2. Contracting with private vendors for supplies and services.
  3. Implementing management and operational structure, including any necessary hiring.
  4. Establishing new relationships with employed physicians.
- Initiate renegotiation, assignment or any other disposition of County's contracts with:
  1. Affiliation agreements with medical schools and transition of residency programs.
  2. Public private partnerships, managed care and other third party payors.<sup>2</sup>
  3. Agencies providing grants.
  4. Various DHS services and supplies contractors.

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\*Each of these steps involves extensive planning and implementation efforts.



## PRIVATE NON-PROFIT PUBLIC BENEFIT CORPORATION

A private non-profit public benefit corporation would be a private not-for-profit entity, which would be completely separate from the County. The following are the key steps needed to complete the conversion. The time frames shown are cumulative, therefore, the whole process could take between three to five years.

### Phase 1 - Formation of the Non-Profit

#### **Estimated Time: 3 to 6 months**

- Complete pre-formation planning, including but not limited to determining:
  - 1. Who will be incorporator?
    2. Who will be the members?
    3. Whether the County has reversionary rights to assets of district in the event the District is dissolved.
    4. How the non-profit's board will be established.
- Create legal entity:
  1. Incorporator files Articles of Incorporation with the Secretary of State.
  2. File for tax exempt status with the Internal Revenue Service.
  3. Appoint members of the Board of Trustees.

### Phase II - Creation of Non-Profit

#### **Estimated Time: 1 to 2 years**

- Establish Non-Profit infrastructure: \*
  1. Establish and create corporate by laws.
  2. Establish fiscal, personnel and data management systems.
  3. Decide whether to hiring new personnel or transition County personnel.
  4. Establish Non-Profit's management and operational structure.

### Phase III - Transition Steps

#### **Estimated Time: 3 to 5 years**

- Establish contract between County and Non-Profit to provide:

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\*Each of these steps involves extensive planning and implementation efforts.

1. Indigent Care (including level of service and corresponding funding).
  2. Distribution of financial liability (past and future).
  3. Access to inter-governmental transfers funding (if necessary).
- Restructure non-profit relationship with physicians as a non-profit is legally precluded from employing physicians. As such, the non-profit would have to enter into a contractual relationship, as opposed to an employment relationship.
  - Initiate transfer of real or personal property either through lease or sale from County to District.
  - Establish Beilenson notice and hearing (notice posted at least 14 days prior to hearing).
  - Obtain required licensure and certification of facilities by State and Federal government.
  - Non-Profit begins start-up process by:
    1. Contracting with private vendors for supplies and services.
    2. Implementing management and operational structure, including any necessary hiring.
  - Initiate renegotiation, assignment or any other disposition of County's contracts with:
    1. Affiliation agreements with medical schools and transition of residency programs.
    2. Public private partnerships, managed care and other third party payors.
    3. Agencies providing grants.
    4. Various DHS services and supplies contractors.